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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, JANUARY 30, 2001

APPLICATION OF

VIRGINIA GAS PIPELINE COMPANY

CASE NO. PUE000283

For an Annual Informational Filing

ORDER ADOPTING RECOMMENDATIONS
AND DISMISSING PROCEEDING

On May 30, 2000, Virginia Gas Pipeline Company (VGPC" or "the Company") filed its Annual Informational Filing ("AIF") for the twelve months ending December 31, 1999.

On November 30, 2000, the Commission Staff ("Staff") filed its report in this matter. That report included a financial and accounting analysis. Staff noted in its financial analysis that it had used a 13.50% return on equity in VGPC's capital structure for illustrative purposes in its financial analysis since the Company does not have an authorized point or range for its return on equity. Staff explained that, because actual operating data was not available, the Company's earlier applications for certificates of public convenience and necessity included rates derived from estimates of revenues and costs. Such estimates include a cost of capital based on a capital structure that assumed 25% equity within the capital

structure, at a return on equity rate of 13.5%. The Staff reported that it used the consolidated capital structure of Virginia Gas Company ("VGC"), VGPC's parent, in its financial analysis because VGC is the primary entity that has raised capital on behalf of VGPC and its affiliates. This consolidated capital structure, together with a 13.5% cost of equity, produced an overall cost of capital of 11.713% for the 1999 test year.

Further, the Staff noted that there is a case now pending before the Commission involving a proposed merger between NUI Corporation ("NUI") and VGC, i.e., Case No. PUA000079. Staff reported that if the pending merger is approved with NUI, it will need to re-evaluate the capital structure appropriate for setting rates for the Company. It stated that, assuming NUI becomes the entity that issues debt on behalf of VGPC, NUI's consolidated capital structure may be the appropriate capital structure to use in setting VGPC's rates. The Staff requested that the Company reflect information required by Schedules 1, 2, and 3 for the test year and four prior fiscal years, as required by the Commission's Rules Governing Utility Rate Increase Applications and Annual Informational Filings ("Rules"), 20 VAC 5-200-30 adopted in Case No. PUA990054.

In its accounting analysis, the Staff noted that it had to revise certain of the Company's adjustments. Staff reported

that on a jurisdictional per books basis, VGPC earned a return on year-end equity of 7.522%, and on a fully adjusted basis, VGPC earned a return on equity of 7.034%. Based upon these operating results, Staff proposed that no action be taken to revise the Company's rates at this time.

Further, the Staff recommended that the Company perform a comprehensive jurisdictional study similar to the study performed for Virginia Gas Distribution Company in Case No. PUE990531, to allocate more appropriately expenses between jurisdictional and non-jurisdictional customers, and that this study be submitted no later than 60 days prior to the filing of the Company's next rate case. Additionally, the Staff proposed that: the Company reflect capitalized interest in its future filings at a level that is consistent with the use of the methodology that had been agreed upon by Staff and the Company; the Company comply with the Staff's booking recommendations for the acquisition adjustment set out in the Staff's report, including the restatement of depreciation expense and accumulated depreciation, in future filings; the Company adjust the depreciation expense associated with the acquisition adjustment in future filings; the Company refrain from reflecting the impact of the State income taxes in its adjustments until it begins paying state income taxes on January 1, 2001; and (vi) the Company correctly allocate expenses

between its Operation and Maintenance ("O & M") expenses and Taxes Other than Income expenses in future filings; e.g., the Company should credit capitalized property taxes to its "Taxes Other" account rather than to Operation and Maintenance expenses. The Staff noted that it did not object to VGPC filing its next AIF by May 31, 2001, to enable the Company to provide Staff with audited financial information with which it could evaluate VGPC's financial and operating results.

On December 18, 2000, the Company filed its response to the Staff report. In its response, VGPC noted that the jurisdictional factor for allocating transmission plant, discussed at page 7 of the Staff report, was correctly stated at 100%, and that the only customer transporting natural gas on VGPC's pipeline system is a Virginia jurisdictional customer. It explained that its acquisition adjustment of \$1,176,000 was reduced in Case No. PUE960093, by \$825,364, but that Schedule 13 of VGPC's AIF was set up primarily for presentation purposes so that the original acquisition adjustment, together with the amounts disallowed by the Commission, could be tied into VGPC's detailed property schedules for audit purposes. VGPC further requested that it be permitted to file its AIF for the twelve months ending 2000, by May 31, 2001.

On January 3, 2001, the Staff filed its reply to VGPC's response. In its reply, Staff did not take issue with VGPC's

observation regarding the use of a 100% jurisdictional factor for the allocation of the Company's transmission plant. In light of VGPC's December 18, 2000 Response, the Staff withdrew its recommendation that the Company comply with Staff's booking recommendations for VGPC's acquisition adjustment, including the restatement of depreciation expense and accumulated depreciation in future filings. Staff reiterated its support for its other recommendations for VGPC set out on pages 14 and 15 of the November 30, 2000 Report. The Staff represented that it was authorized to state that VGPC did not wish to file a further response to the Staff's reply.

NOW UPON consideration of the Company's application, the Staff's report, the Company's response, the Staff's reply thereto, and the applicable statutes, the Commission finds that the Staff's accounting recommendations found in its report, as amended by its January 3, 2001 reply, are reasonable and should be adopted. In addition, Staff's recommendations that the Company file Schedules 1, 2, and 3 for the test year and four prior fiscal years are reasonable and should be accepted. We further find it appropriate to grant the Company's request to file its AIF for the twelve months ending December 31, 2000, no later than May 31, 2001.

Accordingly, IT IS ORDERED THAT:

(1) Consistent with the findings made herein, the recommendations set out in the Staff's November 30, 2000, report, as revised by the Staff's January 3, 2001 reply, are hereby adopted.

(2) If VGPC does not seek rate relief, the Company shall file its next AIF, utilizing financial and operating results for the year ending December 31, 2000, by no later than May 31, 2001.

(3) There being nothing further said to be done in this matter, this case shall be dismissed from the Commission's docket of active proceedings, and the papers filed herein placed in the Commission's file for ended causes.